

Message Text

LIMITED OFFICIAL USE

PAGE 01 HONG K 15281 080501Z

15/41

ACTION TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /094 W

----- 012748

R 310930Z DEC 75

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8545

INFO AMEMBASSY LONDON

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

LIMITED OFFICIAL USE HONG KONG 15281

C O R R E C T E D C O P Y (PARA 1)

PASS TREASURY AND FEDERAL RESERVE BANK

E.O. 11652: NA

TAGS: EFIN, CH, HK, US

SUBJECT: BANK OF CHINA OFFERS US DOLLARS BANK ACCOUNTS

SUMMARY AND INTRODUCTION: THE BANK OF CHINA (BOC) HONG KONG
BRANCH'S RECENT MOVE TO OFFER US DOLLAR DIXED DEPOSITS TO
ITS CUSTOMERS IS THE LATEST IN A SERIEFOF PRC MOVES DURING
1975 TOWARD GREATER OPENNESS CONCERNING INTERNATIONAL BANKING
PRATICES IN GENERAL, AND TOWARD GREATER ACCEPTANCE OF THE
US DOLLAR AS THE PREDOMINANT PTTERNATIONAL CURRENCY IN
PARTICLUAR. PREVIOUS MOVES EARLIER THIS YEAR INCLUDE SIGNING
US DOLLAR-DENOMINATED IMPORT AND EXPORT CONTRACTS IN SPRING,
OFFERING FORWARD RMB AGAINST US DOLLARS IN AUGUST, AND
ESTABLISHING LIMITED CORRESPONDENT BANKING RELATIONSHIPS WITH
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 HONG K 15281 080501Z

TWO MORE US BANKS IN THE FALL. THOUGH THE INTERESTRATES

OFFERED FOR US DOLLAR DEPOSITS ARE NOT COMPETITIVE NOW, PEKING HAS THE OPTION, SHOULD THE EXPERIMENT ACHIEVE ITS APPARENTLY LIMITED OBJECTIVES, OF EXPANDING ITS USE IN THE FUTURE. THE NEW SCHEME ALSO HIGHLIGHTS THE BOC HONG KONG BRANCH'S EFFORTS HERE TO EXPAND ITS HK DOLLAR AND RMB DEPOSITS. END SUMMARY AND INTRODUCTION.

"1. FOR THE FIRST TIME, THE BANK OF CHINA (BOC) HONG KONG BRANCH IS OFFERING TWO US\$ DENOMINATED ACCOUNTS. ONE IS AN ORDINARY PASSBOOK SAVINGS ACCOUNT, WHICH DRAWS THE STANDARD HONG KONG INTEREST RATE OF 2.5 PERCENT PER ANNUM. THE OTHER IS A FIXED DEPOSIT (FD) ACCOUNT, AVAILABLE WITH A US \$1,000 DEPOSIT MINIMUM FOR THREE, SIX AND TWELVE MONTHS. IN PASSING, A BROCHURE ALSO NOTES THAT FD ACCOUNTS IN POUND STERLING, DMARKS, SWISS OR FRENCH FRANCS MAY BE OPENED AS WELL. THE ABSENCE OF REFERENCE TO INTEREST RATES FOR THESE CURRENCIES IN THE BROCHURE STRONGLY SUGGESTS THAT THESE ARE CLEARLY CONSIDERED OF SECONDARY IMPORTANCE COMPARED TO US DOLLARS.

2. ALTHOUGH THERE IS NO INDICATION WHEN THE BOC MAY HAVE STARTED QUIETLY ACCEPTING US DOLLAR FDS, THE RECENTLY PRINTED BROCHURE WHICH PUBLICLY SOLICITS DOLLAR ACCOUNTS AND OTHER "FOREIGN CURRENCY DEPOSITS" CONTAINS AN INSERTABLE TABLE OF INTEREST RATES DATED OCTOBER 20, 1975. IT WAS NOT UNTIL DECEMBER 1975, HOWEVER, THAT THE LOCAL BANKING COMMUNITY BECAME AWARE OF THE NEW US\$ FD SCHEME. BOC PUBLICITY OF THE NEW SERVICE CONSISTS MERELY OF DISPLAYING THE BROCHURE IN ITS BANKING HALL.

3. ONE LOCAL AMERICAN BANKER, JAMES SWEITZER OF MANUFACTURES HANOVER TRUST, DURING A RECENT ROUTINE CALL ON SEVERAL PR-CONTROLLED BANKS IN HONG KONG (THE "WAISTER" BANKS TO THE BOC) COMMENTED TO HIS HOSTS ON THE NEW BROCHURE. (US\$ FDS ARE ALSO AVAILABLE IN SOME OF THESE BANKS AS WELL). IN RESPONSE, THE PRC-ORIENTED BANKERS DESCRIBED THE SCHEME AS A NEW EXPERIMENT, AND SAID THEY DID NOT EXPECT MUCH SINCE THEY CANNOT SET COMPETITIVE INTEREST RATES (REASON NOT GIVEN).

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 HONG K 15281 080501Z

4. COMMENT: THE MOTIVATION IN OFFERING US \$ FDS MAY WELL BE, AS THE PRC-ORIENTED BANKERS HINTED TO SWEITZER, THAT THE BOC IS MERELY OUTWARDLY CONFORMING WITH THE STANDARD HONG KONG BANKING PRACTICE OF OFFERING US\$ FD AS A SERVICE TO CUSTOMERS. BY COMPARISON, MANY SMALL ETHNIC-CHINESE INDEPENDENT BANKS HERE OFFER THIS SERVICE OF CHALLENGING THE PREDOMINANCE OF THE HONG KONG & SHANGHAI BANKING CORPORATION (HSBC), CHARTERED AND HANG SENG BANKS,

AND THE MULTINATIONAL BANKS IN THE LOCAL US \$ FS MARKET. ANOTHER CONSIDERATION MAY BE TO ALLOW THE BOC HK BRANCH TO BUILD UP EXPERIENCE IN HANDLING US \$ FD DEPOSITS. IN THIS REGARD, FUTURE DEVELOPMENTS MAY FOLLOW THE COURSE TAKEN WHEN THE BOC INTRODUCED REN MIN BI (RMB) FIXED DEPOSITS IN HONG KONG IN 1970, BUT DELAYED ACTIVELY PROMOTING THIS DEPOSIT UNTIL 1973. CONTRARY TO THE IMPLICATION OF A JOURNAL OF COMMERCE ARTICLE, DECEMBER 19. ON THE BOC US \$ FD FINANCING OF THE CONTINUING PRC CURRENT ACCOUNT DEFICIT DOES NOT SEEM TO BEHIN IMMEDIATE OBJECTIVE.

5. THE LACK OF COMPETITIVENESS OF THE BOC US \$ FD CAN BE CONTRASTED WITH THE BANK'S AGGRESSIVELY COMPETITIVE BEHAVIOR IN SEEKING RMB AND HK \$ FDS. FOR EXAMPLE, HSBC DEPUTY CHAIRMAN MICHAEL SANDBERG RECENTLY TOLD A CONFERENCE HERE THAT " THE CHINESE GOVERNMENT-OWNED BANKS HAVE BEEN RAPIDLY EXPANDING THEIR BRANCHES IN RECENT YEARS AND VIGOROUSLY BIDDING FOR BOTH HONG KONG DOLLAR AND RMB DEPOSITS." (SC MORING POST NOVEMBER 28) THE COMPARISON IS INTRESTING BETWEEN THE BOC RATE STRUCTURE AND RATES SET BY MAJOR BANKS HERE. THESE INTREST RATES ARE AS FOLLOWS:

EFFECTIVE DATE	3 MONTHS	6MONTHS	12 MONTHS
BOC US\$ FBR OCT 30	3.5	4.75	5.75
BOC HK \$ FD MARCH 1	3.5	4.75	5.75
BOC RMB FS SEPT 8	3.0	5.0	6.0
HSBC US FD DEC 17	6.1875	7.0625	7.357
HSBC HK FD MARCH 8	3.25	4.5	5.5

THE BOC US\$ FD RATE IS BELOW HSBC RATES BY A CONSIDERABLE MARGIN, ALTHOUGH THE BOC HK\$ RD RATE IS ONE-QUARTER POINT ABOVE THE HSBC RATE. THE EFFECTIVE YEILD FOR BOC RMB FD IS HIHER THAN THE NOMINAL RATE SINCE INTREST PAID ON LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 HONG K 15281 080501Z

THESE DEPOSITS IS NOT SUBJECT TO THE HK GOVERNMENT'S 15 PERCENT INTREST WITHHOLDING TAX. RMB DEPOSITS ARE MADE WITH THE BOC PEKING HEADOFFICE THROUGH THE BOC HK BRANCH, WHICH CLAIMS MERELY TO ACT AS PEKING'S AGENT. BY CONTRAST, SINCE HK\$ AND US\$ FD ARE DEPOSITED DIRECTLY WITH THE BOC HK BRANCH, INTREST PAID IS SUBJECT TO THE TAX(CONTRARY TO THE FAR EASTERN ECONOMICS REVIEW'S JAN 2 ARTICLE ON THE BOC US\$ FD). THE RELATIONSHIP OF THE INTREST RATES SEEMS CLEARLY SET TO ENCOURAGE CUSTOMERS TO PREFER RMB FDS OVER HK \$ FDS, AND AT THE SAME TIME TO KEEP THE BOC HK\$ D RATE ABOVE THAT OFFERED BY COMPETING BANKS.

6. CONCLUSION: NOT SURPRISINGLY, THEN, THE BOC US\$ FD SCHEME HAS BEEN ACCOMPANIED BY A NOTABLE LACK OF EXCITEMENT.

IN SUM, THIS MOVE SEEMS A MODEST SIGN OF GREATER OPENNESS,
WILLINGNESS TO EXPERIMENT, AND GREATER CONFORMITY WITH
STANDARD HK BANKING PRATICES. BUT IN THE FUTURE THE BOC
HAS THE OPTION OF TAKING A MORE AGGRESSIVE ATTITUDE AND
RAISING US \$ FD RATES TO MORE COMPETITIVE LEVELS.
CROSS

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, BANKS, BANK ACCOUNTS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975HONGK15281
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760006-0458
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975122/aaaaabai.tel
Line Count: 175
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2003 by ElyME>; APPROVED <10 JUL 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANK OF CHINA OFFERS US DOLLARS BANK ACCOUNTS SUMMARY AND INTRODUCTION: THE BANK OF CHINA (BOC) HONG KONG
TAGS: EFIN, CH, HK, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006